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Transcript Exhibit(s)

Docket #(s): T-20741A-16-0088

Arizona Corporation Commission

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SEP 15 2016

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AZ CORP COMMISSION
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Exhibit #: S-1-4; A1-4

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MEMORANDUM



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EXHIBIT

S-1
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2016 JUL -8 P 3:11

FROM: Thomas M. Broderick *th broderick*
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: July 8, 2016

RE: IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE COMPANY, INC., FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES FOR ITS YOUNG EXCHANGE AND FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PROPERTY IN ITS YOUNG EXCHANGE (DOCKET NO. T-20741A-16-0088)

Attached is the Staff Report for the Midvale Telephone Company, Inc.'s ("Midvale" or "Company") Application requesting approval for a residential rate increase for Midvale Telephone Company, Inc.'s customers in its Young Exchange to compensate for the rate impacts from the rate floor requirements set by the Federal Communications Commission's Universal Service Fund/Intercarrier Compensation ("FCC's USG/ICC") Transformation Order.

Staff recommends approval of Midvale's request to increase its monthly residential local exchange rate in its Young Exchange from \$18.65 to \$20.00 effective June 1, 2017 and to \$21.93 (the current floor) effective June 1, 2018.

TMB:MAC:red\MAS

Originator: Matt Connolly

Attachment: Original and Thirteen copies

Arizona Corporation Commission

DOCKETED

JUL 8 2016

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TC

SERVICE LIST FOR: MIDVALE TELEPHONE COMPANY, INC.
DOCKET NO. T-20741A-16-0088

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MIDVALE TELEPHONE COMPANY, INC.

DOCKET NO. T-20741A-16-0088

**IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE COMPANY,
INC., FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES FOR IT'S
YOUNG EXCHANGE AND FOR A DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PROPERTY IN ITS YOUNG EXCHANGE**

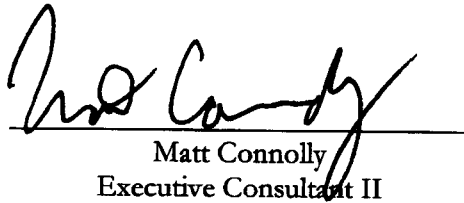
JULY 8, 2016

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STAFF ACKNOWLEDGMENT

The Staff Report for Midvale Telephone Company, Inc. ("Midvale" or "Company"), Docket No. T-20741A-16-0088, was the responsibility of the Staff member listed below. Matt Connolly was responsible for the review and analysis of the Applicant's application for a residential rate increase for Midvale's customers in its Young Exchange to compensate for the rate impacts from the rate floor requirements set by the Federal Communications Commission's Universal Service Fund/Intercarrier Compensation ("FCC's USG/ICC") Transformation Order.



Matt Connolly
Executive Consultant II

1. INTRODUCTION

On March 8, 2016, Midvale Telephone Company, Inc. ("Midvale" or "Company" or "Applicant") filed an application requesting that the Arizona Corporation Commission ("Commission") authorize a rate increase for its residential monthly access line rates for its Young Exchange. Midvale requests this rate increase in order to meet the rate floor requirements established by the Federal Communications Commission ("FCC") in its November 18, 2011, USF/ICC Transformation Order ("USF/ICC Order"). Midvale states that its application is made pursuant to Article XV, Section 3 of the Arizona Constitution, Arizona Revised Statute ("A.R.S.") Sections 40-250, 40-367 and Arizona Administrative Code ("A.A.C.") R14-2-103. A.A.C. R14-2-103(A)(1) requires specific financial and statistical information be filed with a request by a public service corporation doing business in Arizona for a determination of the fair value of the property of the corporation and the establishment of just and reasonable rates. Citing Commission precedent previously approving similar requests using a streamlined process and set of financial schedules¹, Midvale included with its application the following schedules for the Young Exchange in support of its request: These schedules are included as Attachment A to this Staff Report

- Regulated 2014 Results of Operations (Adjusted Year Test Results)
- Estimated ICC Impact of FCC Order
- 2014 Rate Base
- Adjustments to Revenues and Expenses
- Calculation of Cash Working Capital
- Proposed Rate Design

In response to a request from Staff, on June 24, 2016, the Applicant provided to Staff the schedules listed above with year ending 2015 figures for the Young Exchange.

On April 7, 2016, Staff issued a Letter of Sufficiency in this case. On May 24, 2016, Midvale filed an affidavit of mailing verifying that it had mailed a Notice concerning its Application to each of its customers.

2. BACKGROUND

Midvale is an Idaho corporation duly authorized to conduct business in Arizona. As a small rate-of return ("RoR") regulated Incumbent Local Exchange Carrier ("ILEC"), Midvale provides rural telecommunications services to approximately 1,260 customers in Arizona, serving the Arizona exchanges of Millsite, Granite Mountain, Silverbell, Cascabel and Young. Midvale holds a Certificate of Convenience and Necessity ("CC&N") from the Commission to provide local exchange and toll access services to specified parts of Arizona under Decision No. 58048 (October 29, 1992); Decision No. 58763 (September 1, 1994); Decision No. 61095 (August 26, 1998);

¹ *Arizona Telephone Company, Inc.*, Decision No. 74771 dated October 24, 2014; *Table Top Telephone Company, Inc.*, Decision No. 74830 dated November 13, 2014; *Valley Telephone Cooperative, Inc.*, Decision No. 74773 dated October 24, 2014; *Copper Valley Telephone, Inc.*, Decision No. 74772 dated October 24, 2014 and *South Central Utah Telephone Association, Inc.*, Decision No. 74775 dated October 24, 2014.

Decision No. 66510 (November 10, 2003); Decision No. 67746 (April 11, 2005); Decision No. 70743 (February 6, 2009); Decision No. 72728 (January 6, 2012); Decision No. 74487 (May 23, 2014); Decision No. 75317 (October 27, 2015) and Decision No. 75311 (October 27, 2015).

On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order transitions the outdated federal universal service programs and most intercarrier compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC stated it will reduce intercarrier compensation rates to zero by July 1, 2020, for RoR companies, with limited recovery from customers and partial recovery from CAF. The recovery from the CAF will phase out over time at (5) five percent annually.

The USF/ICC Order also adds new rules that will reduce federal high-cost loop support ("FHCLS") to carriers by the amount a carrier's flat-rate residential local service rate falls below the specified annual rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The FCC's Order established single line residential local rate floors of \$10.00 as of June 1, 2012, \$14.00 as of June 1, 2013, \$20.46 as of June 1, 2014, \$21.22 as of June 1, 2015, \$21.93 as of June 1, 2016, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau, based on a nationwide average. The FCC adopted the rate floor rules "to ensure that states are contributing to support and advance universal service and that consumers are not contributing to the Fund to support customers whose rates are below a reasonable level."²

To maintain FHCLS, Midvale and other rural ILECs must increase single line residential local rates to the FCC-mandated residential rate floors. Otherwise the amount of FHCLS funds will be reduced dollar-for-dollar for each customer by the difference between the existing single line local rate and the new rate floor.

The Commission last considered Midvale's rates in Docket No. T-02532A-00-0512, which resulted in Commission Decision No. 64011, dated September 5, 2001 setting Midvale's residential rates for the Young exchange at \$18.65.

3. COMPLIANCE

According to the Corporations Division, Midvale is in good standing. The Compliance Section of the Utilities Division reports that Midvale is currently in compliance. The Consumer Services Section of the Utilities Division reports there were no complaints or opinions about Midvale between January 1, 2013 to current. Midvale filed its 2015 Utilities Annual Report on April 28, 2016.

² *Report and Order, Declaratory Ruling, Order, Memorandum and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking*, WT Docket No. 10-90, WT Docket No. 10-208, WT Docket No. 14-58, WC Docket No. 07-135, CC Docket No. 01-02 ("Seventh Reconsideration Order").

4. PUBLIC NOTICE

On May 24, 2016, Midvale filed a Proof of Notice verifying that the required notice was provided to Midvale's customers in the format prescribed in the Commission's April 29, 2016, Procedural Order.

5. OPERATING INCOME STATEMENT

Midvale submitted Regulated Results of Operations as of December 31, 2015 for the Young Exchange in its streamline filing. The submitted information was accepted without adjustment for the purposes of this streamlined application.

5.1 *Operating Revenue and Expenses*

According to the information provided by the Applicant, Midvale Total Intrastate Operating Revenues as of December 31, 2015 for the Young Exchange was \$785,990. Subcategories of Total Intrastate Operating Revenues for the Young Exchange are noted below:

Local	\$111,157
Universal Services Fund (USF-HCL and Safety Net Additive (SNA)	\$621,715
Access Revenues	\$31,938
Billing and Collecting	\$0
Other Misc., Uncollectibles	\$21,180

The Applicant also stated that its Total Intrastate Operating Expenses as of December 31, 2015 for the Young Exchange were \$707,914. Subcategories of Total Intrastate Operating Expenses for the Young Exchange are noted below:

Plant Specific Operations	\$325,343
Plant Nonspecific Expenses	\$11,989
Depreciation and Amortization Expenses	\$221,921
Customer Operations Expenses	\$25,034
Corporate Operations Expenses	\$88,311
Other Operating Taxes and Income	\$35,317

5.2 *Operating Income*

As provided by the Applicant, Midvale's Total Intrastate Operating Income as of December 31, 2015 for the Young Exchange was \$78,076 before taxes and \$39,567 after taxes.

6. RATE BASE

According to Midvale, the Interstate and Intrastate 2015 rate base for the Young Exchange was \$2,552,504, as stated in the table below. The Company's jurisdictional Intrastate rate base is \$1,620,693,³

**Midvale Telephone Company, Inc.
Rate Base as of December 31, 2015**

	Total Company	Interstate	Intrastate
Plant in Service	5,995,336	2,366,950	3,628,386
Accumulated Depreciation	<u>(3,073,469)</u>	<u>(1,305,557)</u>	<u>(1,767,912)</u>
Net Plant in Service	2,921,867	1,061,393	1,860,474
Prop Held Future Telecom Use	3,475	1,372	2,103
Plant Under Construction	107,935	42,400	64,996
Material and Supplies	45,256	13,360	31,895
Deferred Income Taxes	(607,043)	(230,925)	(376,119)
Other Long Term Liabilities	0	0	0
Customer Deposits	20	8	12
Cash Working Capital	<u>81,534</u>	<u>44,203</u>	<u>37,332</u>
Rate Base	2,552,504	931,811	1,620,693

7. CUSTOMER BASE

Midvale reported an average of 324 residential lines for the Young Exchange as of for 2015.

8. REVENUE REQUIREMENT

As stated above, the Applicant's filing was based on streamlined requirements. Therefore, the Applicant's filing does not contemplate rate adjustments based on a typical revenue requirement analysis.

9. RATE DESIGN

The Company states that its current rate of \$18.65 per month is below the full rate floor (\$21.22 for 2015). However, the rate floor is being phased in so that the reductions to FHCLS will only occur if the local rates are below the following thresholds: \$14.00 (beginning July 1, 2014), \$16.00 (December 1, 2014), \$18.00 (June 1, 2016), \$20.00 (June 1, 2017) and the full rate floor or \$21.22 (June 1, 2018). While Young's residential rates are more than the phase in minimum (\$18.00 beginning in July 2016), the phase in minimum will increase to \$20.00 the next year and the phase-in will expire the following year. To avoid the need for multiple rate filings, Midvale is requesting to increase its residential local exchange service rate in its Young Exchange up to \$20.00 effective June 1, 2017 and the full rate floor, currently set at \$21.93, effective June 1, 2018. The Applicant's filing

³ The Company utilized its Original Cost Rate Base as its Fair Value Rate Base.

only contemplates changes to its residential local exchange rates in its Young Exchange to compensate for the rate impacts of the FCC's USF/ICC Order.⁴

10. STAFF ANALYSIS

Staff did not perform a regulatory audit of the information submitted by Midvale. However, Staff reviewed the information filed in the context of the FCC's November 18, 2011 USF/ICC Order, which is intended to transition the outdated federal universal service programs and most intercarrier compensation systems into a new CAF.

Staff has reviewed the rate application and the federal rule changes that have prompted the rate application. Staff concludes that the costs appear reasonable and appropriate under the circumstances of this case. Staff has also ascertained the Applicant's fair value rate base ("FVRB") as required by Art. 15, Section 14 of the Arizona Constitution and considered the reasonableness of the increase in light of the FVRB finding. The Applicant stipulated to the use of original cost less depreciation as the basis for a determination of its FVRB. The Applicant states that its intrastate rate base for the Young Exchange is \$ 1,620,693. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for its Young Exchange as of December 31, 2014 was \$785,990.

Based on information provided by the Applicant, the annual revenue effect of the increase in Young Exchange residential local telephone service rates from \$18.65 to \$20.00 is \$4,082. Based on information provided by the Applicant, the annual revenue effect of the increase in the Young Exchange residential local telephone service rates from \$20.00 to \$21.93 is \$7,504. At the \$21.93 residential local service rate. Midvale's Return on Rate Base for the Young Exchange would be 2.83 percent, versus 2.44 percent with the Young Exchange residential rate set at \$20.00 per month. In Decision No. 64011, dated September 9, 2001, the Commission found that a fair and reasonable rate of return on the Midvale's fair value rate base is 10.37 percent. Compared to the Applicant's total revenue, any revenue impact of this rate increase would be small and any impact on the Applicant's FVRB would be de minimus.

Staff believes the proposed increases are just, fair and reasonable for the following reasons:

- The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;
- The increase is necessary to preserve the entirety of the Federal Universal Service Fund ("FUSF") that may flow to Midvale pursuant to the FCC's rules; and
- The increase will minimize/reduce the amount of future rate increases;

⁴ Midvale's monthly access line rates for its other four exchanges all exceed the FCC's residential rate floors: Cascabel - \$22.65; Silverbell - \$24.00, Granite Mountain - \$24.00 and Millsite - \$24.00.

11. STAFF RECOMMENDATIONS

Staff recommends approval of Midvale's request to increase its monthly local exchange service rate from \$18.65 to \$20.00 for the Young Exchange effective June 1, 2017 and Midvale's request to increase its monthly local exchange service rate from \$20.00 to \$21.93 for the Young Exchange effective June 1, 2018.

Staff further recommends that any future rate increase applications filed by Midvale be processed per full A.A.C. R14-2-103 requirements, and not streamlined.

However, Staff's recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.



Midvale Telephone Exchange - Arizona (Young Exchange)
as of December 31, 2015

REGULATED 2015 RESULTS OF OPERATIONS
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION

	2015 PER BOOK OPERATIONS	PART 64 ADJUSTMENTS	2015 TOTAL TELEPHONE OPERATIONS	STUDY ADJUSTMENTS	REF	ADJUSTED 2015 RESULTS	INTERSTATE (d)	INTRASTATE (e)
1 Local	111,157	-	111,157	-	-	111,157	-	111,157
2 Universal Services Fund (USF-HCL) and Safety Net Additive (SNA)	621,715	-	621,715	-	-	621,715	-	621,715
3 Access Revenues	943,274	-	943,274	-	-	943,274	911,336	31,938
4 Billing & Collecting	-	-	-	-	-	-	-	-
5 Other Misc., Uncollectibles	21,180	-	21,180	-	-	21,180	-	21,180
6 Total Operating Revenues	1,697,326	-	1,697,326	-	-	1,697,326	911,336	785,990
7 Plant Specific Expenses	679,967	(2,316)	677,652	-	-	677,652	352,308	325,343
8 Plant Nonspecific Expenses	40,239	-	40,239	2,237	#1	42,475	30,486	11,989
9 Depreciation & Amortization Expenses	386,775	(1,877)	384,898	652	#2	385,550	163,630	221,921
10 Customer Operations Expenses	38,583	-	38,583	-	-	38,583	13,549	25,034
11 Corporate Operations Expenses	188,890	(522)	188,368	-	-	188,368	100,057	88,311
12 Other Operating Taxes and (Income)	58,805	(145)	58,660	-	-	58,660	23,344	35,317
13 Total Operating Expenses	1,393,260	(4,860)	1,388,400	2,889	-	1,391,289	683,375	707,914
14 OPERATING RETURN BEFORE TAXES	304,066	4,860	308,926	(2,889)	-	306,037	227,961	78,076
15 State Income Taxes (SIT) (4.1735%)	-	-	95,925	(30,128)	-	65,797	31,605	34,192
16 Federal Income Taxes (FIT) (34.41%)	-	-	7,025	1,281	-	8,307	3,990	4,316
17 Total Operating Income Taxes	-	-	102,951	(28,847)	-	74,104	35,595	38,509
18 Total Expenses and Income Taxes	1,393,260	(4,860)	1,491,351	(25,958)	-	1,465,393	718,970	746,423
19 Net Operating Income	304,066	4,860	205,975	25,958	-	231,934	192,366	39,567
20 Total Year-End Rate Base						2,552,504	931,811	1,620,693
21 Return on Rate Base (Ln 19/Ln 20)								2.44%
22 Estimated Revenue from Local Rate Increase								9,995
23 State Income Taxes (SIT) (4.1735%)								417
24 Federal Income Taxes (FIT) (34.41%)								3,296
25 Increase in Net Operating Income								6,282
26 Net Operating Income After Increase (Ln 19 + Ln 25)								45,849
27 Return on Rate Base After Increase (Ln 26/Ln 20)								2.83%

ASSUMPTIONS

Used 2015 Cost Study run dated 5/24/2016 for Part 36 Separations
Separated results based upon frozen 2000 traffic factors
Separated results based upon 2015 financials, Interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions

Midvale Telephone Exchange - Arizona (Young Exchange)

Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

	Estimated Revenue		
	Total	Reduction	
Interstate SWA (Includes LSS)	210,085	(34,466)	Interstate
Intrastate Terminating Access	19,797	(3,248)	Intrastate Access
Recip Comp Revenue	-	-	Intrastate Local
Recip Comp Expense	-	-	Intrastate Local
Total Base of Eligible Recovery	229,882	(37,714)	

Access Revenue
Access Revenue
Local Revenue
Plant Non-Specific

Midvale Telephone Exchange - Arizona (Young Exchange)

2015 Rate Base

	Total Company	Interstate	Intrastate
Plant in Service	5,995,336	2,366,950	3,628,386
Accumulated Depreciation	3,073,469	1,305,557	1,767,912
Net Plant in Service	2,921,867	1,061,393	1,860,474
Prop Held Future Telecom Use	3,475	1,372	2,103
Plant Under Construction	107,395	42,400	64,996
Material & Supplies	45,256	13,360	31,895
Deferred Income Taxes	(607,043)	(230,925)	(376,119)
Other Long Term Liabilities	-	-	-
Customer Deposits	20	8	12
Cash Working Capital	81,534	44,203	37,332
Rate Base	2,552,504	931,811	1,620,693

Midvale Telephone Exchange - Arizona (Young Exchange)

Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1	6540	Access Expense	2,237	
	Exclude	NIS - Not In Study To identify the 2014 USAC Contribution		2,237
2	2230	Transmission Equipment	6,522	
	1406	AD - Nonregulated Investment	5,579	
	6560.23	Depreciation Expense - Transmission	652	
	1406	Nonregulated Investment		6,522
	3230	AD - Transmission Equipment		5,579
	Exclude	NIS - Not In Study To correct improper classification of ONT equipment		652
3	6620.8	TRS expense	1,550	
	6620.31	Customer Service Expense To reclass TRS expense		1,550

Midvale Telephone Exchange - Arizona (Young Exchange)

CALCULATION OF CASH WORKING CAPITAL (CWC)

Plant Specific Operations Expenses (6110-6410)	Balance
Plant Non-Spec Op Exp Excl Depr & Amort (6510-6540)	677,652
Customer Operations Expenses (6610-6620)	42,475
Corporate Operations Expenses (6710-6720)	38,583
Contributions (7370)	188,368
Interest on Customer Deposits (7540)	-
Operating Taxes	-
Interest Expense (7500)	161,611
Total Annual Expense	128,220
Cash Working Capital Factor	1,236,909
Cash Working Capital Base	0.065918
Minimum Bank Balance	81,534
Working Cash Allowance	-
Total Cash Working Capital	81,534
	(24.06/365)

Midvale Telephone Exchange - Arizona
Proposed Rate Design
(Date) Average Units*

A	B	C	D	E	F	G	H	I	J
Service Description	Average Units**	Current Rates	Current Zone Charge	2015 Annual Revenues	Rates	Proposed Zone Charge	Revenues	Revenue	Percent
Basic Service	324	\$ 18.65	\$ -	\$ 72,530	\$ 21.22	\$ -	\$ 82,525	\$ 9,995	13.78%
Residence Within the Base Rate Areas (R1)								\$ 9,995	
Estimated Revenue from Local Rate Increase								\$ 9,995	

Notes:
*Average unites (Dates used) are used to capture seasonal fluctuations.
**No reduction made for line loss.

Residential Lines												
Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2013	R1	322	323	321	325	322	326	329	328	327	326	317
2013 Total		322	323	321	325	322	326	329	328	327	326	317
2014	R1	318	319	321	323	328	327	331	327	329	327	323
2014 Total		318	319	321	323	328	327	331	327	329	327	323
2015	R1	316	316	318	327	330	330	328	324	328	330	327
2015 Total		316	316	318	327	330	330	328	324	328	330	327



PUBLIC NOTICE

Federal Communications Commission
445 12th St., S.W.
Washington, D.C. 20554

News Media Information 202 / 418-0500
Internet: <http://www.fcc.gov>
TTY: 1-888-835-5322



DA 15-470

Released: April 16, 2015

WIRELINE COMPETITION BUREAU ANNOUNCES RESULTS OF 2015 URBAN RATE SURVEY FOR FIXED VOICE AND BROADBAND SERVICES AND POSTING OF SURVEY DATA AND EXPLANATORY NOTES

WC Docket No. 10-90

Today, the Wireline Competition Bureau announces the 2015 rate floor for incumbent eligible telecommunications carriers (ETCs) and the reasonable comparability benchmark for fixed voice and broadband services.¹ In addition, we announce the posting of the fixed voice and broadband services data collected in the most recent urban rate survey, and explanatory notes regarding the data, on the Commission's website at <http://www.fcc.gov/encyclopedia/urban-rate-survey-data>.

Based on the survey results, the 2015 rate floor for voice services is \$21.22,² and the reasonable comparability benchmark for voice services is \$47.48.³ Under the Commission's rules, by July 1, 2015, all ETCs that are incumbent local exchange carrier (ILEC) recipients of high-cost support must report in their annual FCC Form 481 the number of residential service lines for which the sum of the local rate and state fees (as of June 1, 2015) is below \$21.22.⁴ To the extent that an ILEC's local rates (plus state regulated fees) in 2015 are less than \$16, that carrier's high-cost support will be reduced on a dollar-for-dollar basis.⁵ This is the same \$16 phase-in limit for support reductions as was in effect in 2014. In addition, each ETC, including competitive ETCs providing fixed voice services,⁶ must certify in the FCC Form 481 that the pricing of its basic residential voice services is no more than \$47.48.⁷

¹ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Red 17663 (2011) (*USF/ICC Transformation Order*), *aff'd sub nom*, *In re: FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

² The *USF/ICC Transformation Order* defined the average urban rate to include local end-user rates plus state regulated fees (specifically, state subscriber line charges (SLCs), state universal service, and mandatory extended area service charges). *USF/ICC Transformation Order*, 26 FCC Red at 17751, para. 238.

³ *Id.* at 17694, para. 84.

⁴ 47 C.F.R. § 54.313(h).

⁵ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order et al., 29 FCC Red 7051, 7077-82, paras. 77-86 (2014) (waiving full impact of local rate floor over a four-year period).

⁶ The Bureau has adopted a benchmark only for fixed voice services because "the differences in rate plans and other attributes of fixed and mobile services would make it inordinately difficult to create a unified benchmark" that

(continued...)

Under the approach adopted by the Bureau in 2014, the reasonable comparability broadband benchmark varies, depending upon the supported service's download and upload bandwidths and usage allowance.⁸ The following table provides the 2015 benchmark for the required minimum broadband offering as well as other commonly-provided service offerings:

Download Speed (Mbps)	Upload Speed (Mbps)	Usage Allowance (GB)	Benchmark
10	1	100	\$71.40
10	1	250	\$75.99
10	1	Unlimited	\$77.80
25 ⁹	5	250	\$95.08
25 ¹⁰	5	Unlimited	\$96.89

To facilitate benchmark calculations, the Bureau will post an Excel file and online tool in which providers can plug the relevant variables to determine the benchmark for specific service characteristics at <http://www.fcc.gov/encyclopedia/urban-rate-survey-data>.¹¹

Recipients of high-cost universal service and/or Connect America Fund support that are subject to broadband performance obligations are required to offer broadband service at rates that are at or below the relevant reasonable comparability benchmark in 2015.¹²

For further information, please contact Suzanne Yelen, Industry Analysis and Technology Division, Wireline Competition Bureau, at (202) 418-7400 or TTY (202) 418-0484, or Suzanne.Yelen@fcc.gov.

- FCC -

(Continued from previous page) _____

applied to both fixed and mobile services. See *Connect America Fund*, WC Docket No. 10-90, Order, 28 FCC Rcd 4242, para. 6 (Wireline Comp. Bur. 2014).

⁷ 47 C.F.R. § 54.313(a)(10); see also *USF/ICC Transformation Order* at 18046-47, para. 1026. In the *USF/ICC Transformation Order*, the Commission required that as a condition of receiving high-cost support, ETCs must offer voice and broadband services in supported areas at rates that are reasonably comparable to rates for similar services in urban areas. *USF/Transformation Order*, 26 FCC at 17693, 17695, paras. 81, 86.

⁸ *Connect America Fund*, WC Docket No. 10-90, Report and Order, 29 FCC Rcd 13485 (Wireline Comp. Bur. 2014).

⁹ The 25 Mbps/5 Mbps benchmarks are applicable to those entities authorized to receive funding for category one projects in the Commission's rural broadband experiments. See *Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769, 8779, para. 26 (2014).

¹⁰ *Id.*

¹¹ We note that the Commission raised the minimum speed standard to 10 Mbps downstream and 1 Mbps upstream (10/1 Mbps) in December 2014. *Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order, 29 FCC Rcd 15644, 15649, para. 15 (2014) (*December 2014 CAF Order*).

¹² ETCs will be required to certify that their rates in 2015 met this benchmark in their annual FCC Form 481, due July 1, 2016, subject to Paperwork Reduction Act approval. See *December 2014 CAF Order*, 29 FCC Rcd at 15686-88, paras. 120-122. The Bureau will issue a public notice when it has obtained Paperwork Reduction Act approval for this certification.



PUBLIC NOTICE



Federal Communications Commission
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Washington, D.C. 20554

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DA 16-362

Released: April 5, 2016

**WIRELINE COMPETITION BUREAU ANNOUNCES RESULTS OF
2016 URBAN RATE SURVEY FOR FIXED VOICE AND BROADBAND SERVICES,
POSTING OF SURVEY DATA AND EXPLANATORY NOTES, AND
REQUIRED MINIMUM USAGE ALLOWANCE FOR ETCs SUBJECT TO BROADBAND
PUBLIC INTEREST OBLIGATIONS**

WC Docket No. 10-90

Today, the Wireline Competition Bureau (Bureau) announces the 2016 rate floor for incumbent eligible telecommunications carriers (ETCs) and reasonable comparability benchmarks for fixed voice and broadband services.¹ In addition, we announce the posting of the fixed voice and broadband services data collected in the most recent urban rate survey, and explanatory notes regarding the data, on the Commission's website at <http://www.fcc.gov/encyclopedia/urban-rate-survey-data>. The Bureau also announces the required minimum usage allowance for 2016 for ETCs subject to broadband public interest obligations.

Voice Rates. Based on the survey results, the 2016 rate floor for voice services is \$21.93,² and the reasonable comparability benchmark for voice services is \$41.07.³ Under the Commission's rules, by July 1, 2016, all ETCs that are incumbent local exchange carrier (ILEC) recipients of high-cost support must report in their annual FCC Form 481 the number of residential service lines for which the sum of the local rate and state fees (as of June 1, 2016) is below \$21.93.⁴ To the extent that an ILEC's local rates (plus state regulated fees) in 2016 are less than \$18, that carrier's high-cost support will be reduced on a dollar-for-dollar basis.⁵ In addition, each ETC, including competitive ETCs providing fixed voice services,⁶ must certify in the FCC Form 481 filed no later than July 1, 2016, that the pricing of its basic residential voice services is no more than \$41.07.⁷

¹ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*USF/ICC Transformation Order*), *aff'd sub nom*, *In re: FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

² The *USF/ICC Transformation Order* defined the average urban rate to include local end-user rates plus state regulated fees (specifically, state subscriber line charges (SLCs), state universal service, and mandatory extended area service charges). *USF/ICC Transformation Order*, 26 FCC Rcd at 17751, para. 238.

³ *Id.* at 17694, para. 84.

⁴ 47 CFR § 54.313(h). The rate floor rule only applies to ILECs that receive high-cost loop support or frozen support to the extent support was based on high-cost loop support or former high-cost proxy model support. 47 CFR § 54.318(d).

⁵ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order et al., 29 FCC Rcd 7051, 7077-82, paras. 77-86 (2014) (waiving full impact of local rate floor over a four-year period).

⁶ The Bureau has adopted a benchmark only for fixed voice services because "the differences in rate plans and other attributes of fixed and mobile services would make it inordinately difficult to create a unified benchmark" that

(continued....)

Broadband Rates. Recipients of high-cost and/or Connect America Fund support that are subject to broadband performance obligations are required to offer broadband service at rates that are at or below the relevant reasonable comparability benchmark.⁸

Under the approach adopted by the Bureau in 2014, the reasonable comparability broadband benchmark varies, depending upon the supported service's download and upload bandwidths and usage allowance.⁹ The following table provides the 2016 benchmark for a number of different broadband service offerings:¹⁰

Download Speed (Mbps)	Upload Speed (Mbps)	Usage Allowance (GB)	Benchmark
10 ¹¹	1	100	\$69.14
10	1	150	\$71.17
10	1	250	\$73.72
10	1	Unlimited	\$75.20
25 ¹²	5	250	\$87.76
25	5	Unlimited	\$89.24

To facilitate benchmark calculations, the Bureau will post an Excel file and online tool in which providers can plug the relevant variables to determine the benchmark for specific service characteristics at <http://www.fcc.gov/encyclopedia/urban-rate-survey-data>.

(Continued from previous page) _____

applied to both fixed and mobile services. See *Connect America Fund*, WC Docket No. 10-90, Order, 28 FCC Rcd 4242, para. 6 (WCB 2014).

⁷ 47 CFR § 54.313(a)(10); see also *USF/ICC Transformation Order* at 18046-47, para. 1026. In the *USF/ICC Transformation Order*, the Commission required that as a condition of receiving high-cost support, ETCs must offer voice and broadband services in supported areas at rates that are reasonably comparable to rates for similar services in urban areas. *USF/Transformation Order*, 26 FCC at 17693, 17695, paras. 81, 86.

⁸ ETCs will be required to certify that their rates meet this benchmark in their annual FCC Form 481, due July 1, 2016, subject to Paperwork Reduction Act approval. See *December 2014 CAF Order*, 29 FCC Rcd at 15686-88, paras. 120-122. The Bureau will issue a public notice when it has obtained Paperwork Reduction Act approval for this certification. See Federal Communications Commission, Information Collection Being Reviewed by the Federal Communications Commission, 81 Fed. Reg. 8065 (Feb. 17, 2016) (publication of 60-day notice).

⁹ *Connect America Fund*, WC Docket No. 10-90, Report and Order, 29 FCC Rcd 13485 (WCB 2014).

¹⁰ We emphasize that carriers subject to broadband public interest obligations may offer their customers services other than those meeting the defined benchmark and minimum usage allowance. As long as the carrier offers at least one broadband service plan that meets the relevant metrics, it is free to offer other plans and packages to meet the varying needs of consumers. We note that usage allowance requirements do not apply to those areas that rely exclusively on satellite backhaul. See *USF/ICC Transformation Order*, 26 FCC Rcd at 17699-700, para. 101; see also 47 CFR § 54.313(g).

¹¹ This is the required minimum offering for entities authorized to receive funding for category 3 projects in the Commission's rural broadband experiments. See *Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769, 8779, para. 27 (2014).

¹² This is the required minimum offering for those entities authorized to receive funding for category one projects in the Commission's rural broadband experiments. See *Rural Broadband Experiments Order*, 29 FCC Rcd at 8779, para. 26.

Minimum Usage Allowance. Under the *USF/ICC Transformation Order*, ETCs subject to broadband public interest obligations must provide broadband with usage allowances reasonably comparable to those available through comparable offerings in urban areas.¹³ The Commission delegated to the Bureau the task of setting a specific minimum usage allowance and specified that minimum should be adjusted over time.¹⁴

In 2013, the Bureau concluded that price cap carriers accepting model-based support are required to offer a minimum usage allowance over the course of Phase II's term that (1) remains consistent with trends in usage for 80 percent of consumers using cable or fiber-based fixed broadband services, or alternatively, (2) is at least 100 GB and at or above the usage level for 80 percent of all of that carrier's broadband subscribers, including those subscribers that live outside of Phase II-funded areas.¹⁵

According to the Commission's 2015 Measuring Broadband America data, 80 percent of cable broadband subscribers used 156 GB or less per month.¹⁶ For simplicity, for 2016, we specify a minimum monthly usage allowance of 150 GBs for price cap carriers receiving Phase II model-based support.

In the *December 2014 Connect America Order*, the Commission codified for rate-of-return carriers the requirement adopted in 2011 that ETCs subject to broadband public interest obligations offer usage capacity that is reasonably comparable to comparable offerings in urban areas.¹⁷ We conclude that we will use the same approach for annually determining the required minimum usage allowance and therefore apply the monthly usage allowance of 150 GBs to rate-of-return carriers as well. The Bureau will annually announce the relevant minimum usage allowance for rate-of-return carriers.

For further information, please contact Suzanne Yelen, Industry Analysis and Technology Division, Wireline Competition Bureau, at (202) 418-7400 or TTY (202) 418-0484, or Suzanne.Yelen@fcc.gov.

- FCC -

¹³ See *USF/ICC Transformation Order*, 26 FCC Rcd at 17699, para. 99.

¹⁴ *Id.*

¹⁵ See *Connect America Fund*, WC Docket No. 10-90, Report and Order, 28 FCC Rcd 15060, 15068, paras. 18 (WCB 2013) (*Phase II Service Obligations Order*). In 2013, the Bureau specified an initial minimum usage allowance of 100 GB per month for Phase II based the most recent Measuring Broadband America data available at that time. See *id.* at 15066, para. 16 & n.38.

¹⁶ See Validated Data Sets – Measuring Broadband America 2015 – Statistical Averages, at <http://data.fcc.gov/download/measuring-broadband-america/2015/statistical-averages-2014%20v20151117.xlsx>.

¹⁷ See 47 CFR § 54.308(a); *Connect America Fund et al.*, WC Docket No. et al., Report and Order, 29 FCC Rcd 15644, 15705 (2014).

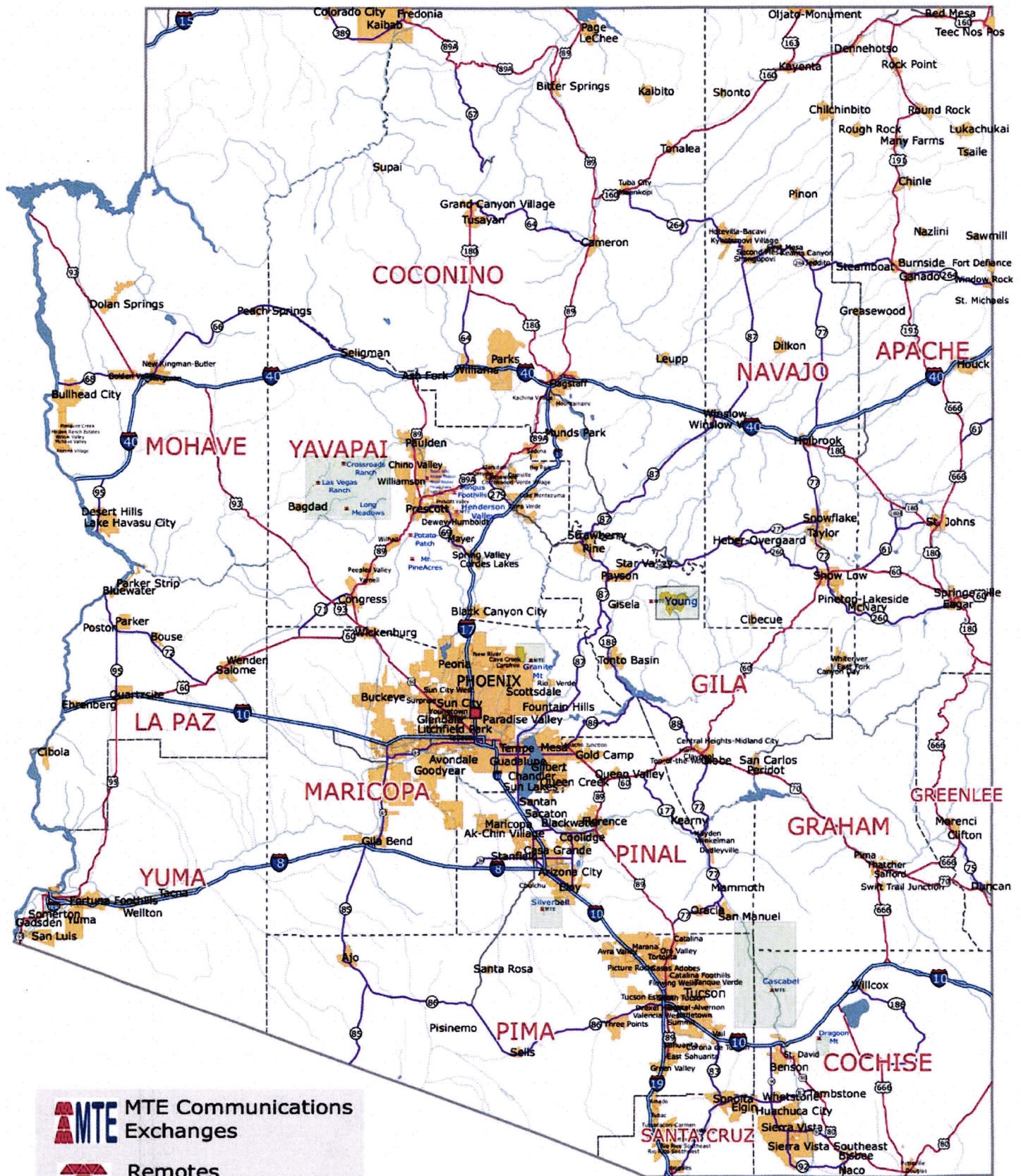


EXHIBIT
A-1
ADMITTED

ORIGINAL

NEW APPLICATION

BEFORE THE ARIZONA CORPORATIC

COMMISSIONERS

DOUG LITTLE - CHAIRMAN

BOB STUMP

BOB BURNS

TOM FORESE

ANDY TOBIN

Arizona Corporation Commission

DOCKETED

MAR 08 2016

DOCKETED BY

[Signature]

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
MIDVALE TELEPHONE COMPANY, INC. FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES FOR ITS YOUNG
EXCHANGE AND FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PROPERTY IN ITS YOUNG EXCHANGE.

DOCKET NO. T-20741A-16-0088

RATE APPLICATION

Midvale Telephone Company, Inc. ("Midvale") requests that the Commission authorize a rate increase in its residential monthly access line rates for its Young Exchange. Midvale requests this rate increase in order to meet the rate floor requirements established by the FCC. In support of this application, Midvale states:

Overview and Description of Midvale

1. This rate application is made pursuant to Article 15 § 3 of the Arizona Constitution, A.R.S. §§ 40-250 40-367, and A.A.C. R14-2-103.

2. Midvale is an Idaho corporation duly authorized to conduct business in Arizona.

3. Midvale specializes in serving rural communities. Midvale provides telecommunications services to approximately 1,260 customers in Arizona, serving the Arizona communities of Millsite, Young, Granite Mountain, Silverbell and Cascabel. Midvale also serves 1,310 customers in six rural communities in Idaho. Midvale holds a CC&N from the Commission to provide local exchange and toll access services to specified parts of Arizona under Decision Nos. 58048 (October 29, 1992), 58763 (Sept. 1, 1994), 61095 (August 26, 1998), 66510 (Nov. 10, 2003), 67746 (April 11, 2005), 70743 (Feb. 6, 2009), 72728 (Jan. 6, 2012), 74487 (May 23, 2014), 75317 (Oct. 27, 2015) and 75311 (Oct. 27, 2015).

4. The issued and outstanding shares of Midvale are owned by Midvale Telephone Exchange, Inc., which in turn is owned by MTE's employees through an Employee Stock

EXHIBIT

A-2

ADMITTED

1 Ownership Plan (ESOP).

2 5. Midvale's monthly Access Line rates¹ are:

3

4 Exchange	Residential	Business	Pay
5 Cascabel	\$22.65	\$30.00	\$21.00
6 Young	\$18.65	\$30.00	\$21.00
7 Silver Bell	\$24.00	\$30.00	\$21.00
8 Granite Mountain	\$24.00	\$30.00	\$21.00
9 Mill Site	\$24.00	\$30.00	\$21.00

10 **FCC Rate Floor Requirements**

11 6. On November 18, 2011, the Federal Communications Commission ("FCC") issued
12 the *USF/ICC Transformation Order*.² The *USF/ICC Transformation Order* transitions the
13 previous federal universal service programs and most inter-carrier compensation systems into a
14 new Connect America Fund ("CAF"). The FCC's press release characterized the *USF/ICC*
15 *Transformation Order* as "the most significant policy step ever taken to connect all Americans to
16 broadband."

17 7. The *USF/ICC Transformation Order* will reduce inter-carrier compensation rates
18 to zero by July 1, 2020, for rate-of-return companies, with limited recovery from customers and
19 partial recovery from the CAF. The recovery from the CAF will phase out over time at 5%

20 ¹ These rates are specified in Midvale's Arizona Corporation Commission Tariff Number 2,
21 Original Sheet Number 2, issued in connection with Decision No. 72728 in Docket No. T-
20741A-10-0207.

22 ² See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and*
23 *Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support;*
24 *Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on*
25 *Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket
26 Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT
27 Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd
17663, 17694, 17751 (2011), copy available at
28 https://apps.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf. (the "USF/ICC
Transformation Order"). The *USF/ICC Transformation Order* was affirmed on appeal in *In re*
FCC 11-161 (Direct Communications Cedar Valley, LLC et al. v. FCC), 753 F.3d 1015, 1104
(10th Cir. 2014).

1 annually.

2 8. Midvale is a small rate-of-return regulated Incumbent Local Exchange Carrier
3 ("ILEC"). The *USF/ICC Transformation Order* adds new rules that will reduce federal high-cost
4 loop support to carriers (such as rural ILECS like Midvale) by the amount their flat rate
5 residential local service rates falls below a specified annual urban rate floor. 41 C.F.R. § 54.318.

6 9. Federal and state support funding are vital to providing robust telecommunications
7 services to rural Arizona areas, that is, "high cost" areas. To maintain Midvale's access to federal
8 high cost loop support, Midvale and other rural ILECs must increase local rates to the FCC-
9 mandated residential rate floors. Otherwise, the amount of federal support funds will be reduced
10 on a dollar-for-dollar basis for each customer by the difference between the existing local rate and
11 the new rate floor. If local rates are not increased, the new FCC rules will reduce federal funds
12 coming to the State of Arizona, and negatively impact customers living in rural, high-cost areas in
13 Arizona.

14 10. Midvale serves rural areas with low customer density. Midvale is thus dependent
15 on federal high-cost loop support mechanisms. Therefore, it is important that the Commission
16 allow Midvale to increase local rates to at least the FCC rate floor in order to maintain Midvale's
17 existing federal high-cost loop support.

18 11. The rate floor includes the monthly flat fee for voice service, together with any
19 state subscriber line charges, state universal service fees, and mandatory extended area service
20 charges. The FCC's order established local residential rate floors of \$10.00 as of June 1, 2012,
21 and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's
22 Wireline Competition Bureau, based on a nationwide average.

23 12. On April 16, 2015, the FCC's Wireline Competition Bureau announced the 2015
24 rate floor for rate-of-return carriers like Midvale that receive federal high cost loop support. The
25 rate floor for 2015 was set at \$21.22,³ subject to the phase-in described below.

26 13. However, the rate floor is being phased in, so that the dollar-for-dollar reductions
27

28 ³ FCC Wireline Competition Bureau, WC Docket No. 10-90, DA 15-470, rel. April 16, 2015,
FCC Public Notice available at: https://apps.fcc.gov/edocs_public/attachmatch/DA-15-470A1.pdf

in federal high cost loop support will occur only if the local rates are below the following thresholds⁴:

Beginning Date	End Date	Reflecting rates as of	Phase In Rate
July 1, 2014	Jan 1, 2015		\$14.00
Jan. 2, 2015	June 30, 2016	Dec. 1, 2014	\$16.00
July 1, 2016	June 30, 2017	June 1, 2016	\$18.00
July 1, 2017	June 30, 2018	June 1, 2017	\$20.00
July 1, 2018	N/A	June 1, 2018	Full rate floor*

* Reset annually, currently \$21.22.

Requested Rate Increase

14. The residential voice rates for Midvale's Young Exchange are currently \$18.65 per month. This is below the full rate floor (\$21.22 for 2015). While it is less than the phase in minimum (\$18.00 beginning in July 2016), the phase in minimum will increase to \$20.00 the next year, and the phase-in will expire the following year.

15. To avoid the need for multiple rate filings, Midvale requests that the residential rate for the Young Exchange be increased to \$20.00 effective June 1, 2017, and to \$21.22 effective June 1, 2018.

Process

16. The Commission has previously approved similar requests in a streamlined process, recognizing the benefits of retaining federal funding for carriers serving Arizona's rural communities. See e.g. *Arizona Telephone Company, Inc.*, Decision No. 74771 (Oct. 24, 2014); *Table Top Telephone Company, Inc.*, Decision No. 74830 (Nov. 13, 2014); *Valley Telephone Cooperative, Inc.*, Decision No. 74773 (Oct. 24, 2014); *Copper Valley Telephone, Inc.*, Decision

⁴ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, 29 FCC Rcd 7051, 7077-82, ¶¶ 77-86 (rel. June 10, 2014)) (waiving full impact of local rate floor over a four-year period).

1 No. 74772 (Oct. 24, 2014); *South Central Utah Telephone Association, Inc.*, Decision No. 74775
2 (Oct. 24, 2014).

3 17. In those cases, the Commission Staff and the carriers developed a streamlined set
4 of schedules to file to support the rate increases. Attached are schedules in this streamlined
5 format.

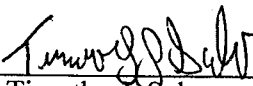
6 18. Midvale will provide customer notice in accordance with a Procedural Order to be
7 issued in this docket.

8 19. Midvale requests that a Procedural Order be issued specifying the public notice
9 requirements, scheduling a public hearing in this matter, and establishing procedural deadlines.

10 WHEREFORE, Midvale requests that the Commission approve a rate increase as
11 described herein.

12
13 RESPECTFULLY SUBMITTED this 8th day of March, 2016.

14
15 SNELL & WILMER L.L.P.

16
17 By 
18 Timothy J. Sabo
19 One Arizona Center
20 400 East Van Buren Street
21 Phoenix, Arizona 85004

22
23
24
25
26
27
28 Attorney for Midvale Telephone Company

1 Original and thirteen copies of the foregoing
2 filed this 8th day of March, 2016, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 8th day of March, 2016, to:

9 Dwight D. Nodes
10 Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Janice M. Alward, Chief Counsel
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Thomas Broderick, Director
21 Utilities Division
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

25 By 

26 234695432

Midvale Telephone Exchange - Arizona (Young Exchange)
as of December 31, 2014

REGULATED 2014 RESULTS OF OPERATIONS
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION

	2014 PER BOOK	PART 64 OPERATIONS ADJUSTMENTS	2014 TOTAL TELEPHONE OPERATIONS	STUDY ADJUSTMENTS	REF	ADJUSTED 2014 RESULTS	INTRASTATE
			(a)	(b)	(c)	(d)	(e)
1 Local	110,936	-	110,936	-	-	110,936	110,936
2 Universal Services Fund (USF-HCL) and Safety Net Additive (SNA)	695,623	-	695,623	-	-	695,623	695,623
3 Access Revenues	884,689	-	884,689	-	-	884,689	39,190
4 Billing & Collecting	-	-	-	-	-	-	-
5 Other Misc., Uncollectibles	21,455	(1,315)	20,140	-	-	20,140	20,140
6 Total Operating Revenues	1,712,704	(1,315)	1,711,389	-	-	1,711,389	865,890
7 Plant Specific Expenses	715,454	(1,483)	713,972	-	-	713,972	347,687
8 Plant Nonspecific Expenses	34,101	-	34,101	78 #1	-	34,179	11,239
9 Depreciation & Amortization Expenses	392,906	(469)	392,437	667 #2	-	393,103	229,028
10 Customer Operations Expenses	34,371	-	34,371	-	-	34,371	12,441
11 Corporate Operations Expenses	196,404	(348)	196,056	-	-	196,056	21,930
12 Other Operating Taxes and (Income)	64,227	(114)	64,113	-	-	64,113	92,825
13 Total Operating Expenses	1,437,464	(2,414)	1,435,050	744	-	1,435,794	742,150
14 OPERATING RETURN BEFORE TAXES	275,241	1,099	276,340	(744)	-	275,595	123,740
15 State Income Taxes (SIT) (4.1735%)	-	-	180,213	(117,001)	-	63,212	29,899
16 Federal Income Taxes (FIT) (34.41%)	-	-	6,916	1,084	-	8,000	3,784
17 Total Operating Income Taxes	-	-	187,129	(115,917)	-	71,212	33,682
18 Total Expenses and Income Taxes	1,437,464	(2,414)	1,622,179	(115,173)	-	1,507,006	779,680
19 Net Operating Income	275,241	1,099	89,211	115,173	-	204,383	86,210
20 Total Year-End Rate Base						2,627,455	1,703,428
21 Return on Rate Base (Ln 19/Ln 20)							5.06%
22 Estimated Revenue from Local Rate Increase							9,995
23 State Income Taxes (SIT) (4.1735%)							417
24 Federal Income Taxes (FIT) (34.41%)							3,296
25 Increase in Net Operating Income							6,282
26 Net Operating Income After Increase (Ln 19 + Ln 25)							92,492
27 Return on Rate Base After Increase (Ln 26/Ln 20)							5.43%

ASSUMPTIONS

Used 2014 Cost Study run dated 7/14/2015 for Part 36 Separations
Separated results based upon frozen 2000 traffic factors
Separated results based upon 2014 financials, interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions

Midvale Telephone Exchange - Arizona (Young Exchange)
Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

	Total	Estimated Revenue Reduction	
Interstate SWA (Includes LSS)	214,743	(25,783)	Interstate
Intrastate Terminating Access	20,236	(2,430)	Intrastate Access
Recip Comp Revenue	-	-	Intrastate Local
Recip Comp Expense	-	-	Intrastate Local
Total Base of Eligible Recovery	234,979	(28,212)	

Midvale Telephone Exchange - Arizona (Young Exchange)
2014 Rate Base

	Total Company	Interstate	Intrastate
Plant in Service	5,897,788	2,253,647	3,644,141
Accumulated Depreciation	2,916,017	1,204,051	1,711,966
Net Plant in Service	2,981,771	1,049,596	1,932,175
Prop Held Future Telecom Use	7,104	2,715	4,389
Plant Under Construction	168,213	64,277	103,936
Material & Supplies	55,325	15,939	39,386
Deferred Income Taxes	(675,189)	(255,896)	(419,293)
Other Long Term Liabilities	-	-	-
Customer Deposits	28	11	17
Cash Working Capital	90,203	47,386	42,818
Rate Base	2,627,455	924,027	1,703,428

Midvale Telephone Exchange - Arizona (Young Exchange)

Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1	6540	Access Expense	78	
	Exclude	NIS - Not In Study To identify the 2014 USAC Contribution		78
2	2230	Transmission Equipment	6,666	
	1406	AD - Nonregulated Investment	5,036	
	6560.23	Depreciation Expense - Transmission	667	
	1406	Nonregulated Investment		6,666
	3230	AD - Transmission Equipment		5,036
	Exclude	NIS - Not In Study To correct improper classification of ONT equipment		667
3	6620.8	TRS expense	1,373	
	6620.31	Customer Service Expense To reclass TRS expense		1,373

Midvale Telephone Exchange - Arizona (Young Exchange)

CALCULATION OF CASH WORKING CAPITAL (CWC)

Plant Specific Operations Expenses (6110-6410)	Balance
Plant Non-Spec Op Exp Excl Depr & Amort (6510-6540)	713,972
Customer Operations Expenses (6610-6620)	34,179
Corporate Operations Expenses (6710-6720)	34,371
Contributions (7370)	196,056
Interest on Customer Deposits (7540)	-
Operating Taxes	-
Interest Expense (7500)	251,242
Total Annual Expense	138,602
Cash Working Capital Factor	1,368,421
Cash Working Capital Base	0.065918
Minimum Bank Balance	90,203
Working Cash Allowance	-
Total Cash Working Capital	90,203
	(24.06/365)

[illegible]

Residential Lines													
Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	R1	322	323	321	325	322	326	329	328	327	326	317	316
2013 Total		322	323	321	325	322	326	329	328	327	326	317	316
2014	R1	318	319	321	323	328	327	331	327	329	327	323	322
2014 Total		318	319	321	323	328	327	331	327	329	327	323	322
2015	R1	316	316	318	327	330	330	328	324	328	330	327	316
2015 Total		316	316	318	327	330	330	328	324	328	330	327	316

ORIGINAL

BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

DOUG LITTLE - CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

RECEIVED

AZ CORP COMMISSION

DOCKET CONTROL

2016 MAY 24 PM 4 39

IN THE MATTER OF THE APPLICATION OF
MIDVALE TELEPHONE COMPANY, INC. FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES FOR ITS YOUNG
EXCHANGE AND FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PROPERTY IN ITS YOUNG EXCHANGE.

DOCKET NO. T-20741A-16-0088

NOTICE OF FILING

Midvale Telephone Company, Inc. files the attached affidavit of mailing demonstrating
mailing of notice in accordance with the Procedural Orders issued in this docket.

RESPECTFULLY SUBMITTED this 24th day of May, 2016.

SNELL & WILMER L.L.P.

Arizona Corporation Commission

DOCKETED

MAY 24 2016

DOCKETED BY

KE

By

Timothy J. Sabo

Timothy J. Sabo
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Attorney for Midvale Telephone Company

Original and thirteen copies of the foregoing
filed this 24th day of May, 2016, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

EXHIBIT

A-3
ADMITTED

1 Copy of the foregoing hand-delivered/mailed
2 this 24th day of May, 2016, to:

3 Sasha Paternoster
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 Janice M. Alward, Chief Counsel
10 Legal Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Thomas Broderick, Director
15 Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 By 
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24181127

AFFIDAVIT OF MAILING

State of Idaho)
) ss.
County of WA.)

I, Missy Harrison, being first dully sworn upon my oath, do state as follows:

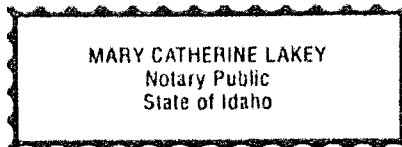
- 1.) I am over 18 years of age and have personal knowledge of the matters set forth in this affidavit
- 2.) I am currently employed by MTE Communications as the Customer Service Manager.
- 3.) My business address is 2205 Keithley Creek Rd., Midvale, ID 83645.
- 4.) I have direct knowledge and responsibility for the notice provided to MTE Communication's customers, which is referenced below.
- 5.) On May 24th, 2016, MTE Communications, Inc. sent each residential and business customer in its Young, AZ service area, a copy of the attached "Public Notice on the Hearing of the Application of Midvale Telephone Company, Inc. for an Increase in its rates and charges", pursuant to the requirements of Arizona Administration Code Section R14-2-103 in connection with Docket No. T-20741A-16-0088. This notice was sent via standard US mail on May 24, 2016.

Further Affiant sayeth not.

Missy Harrison

SUSCRIBED and sworn to before me this

Mary Catherine Kirby
Notary Public
My Commission Expires: July 13, 2021





2205 Keithley Creek Road
P.O. Box 7
Midvale ID 83645
208.355.2211
Fax 208.355.2222

**PUBLIC NOTICE OF THE HEARING ON THE
APPLICATION OF MIDVALE TELEPHONE COMPANY,
INC. FOR AN INCREASE IN ITS RATES AND CHARGES
(Docket No. T-20741A-16-0088)**

On March 8, 2016, Midvale Telephone Company, Inc. ("Midvale" or "Company") filed with the Arizona Corporation Commission ("Commission"), pursuant to Arizona Revised Statutes ("A.R.S.") §40-250 and Arizona Administrative Code ("A.A.C.") R14-2-103, an application for an increase in its residential monthly access rates for its Young Exchange in order to compensate for the floor requirements established by the Federal Communications Commission ("FCC"). Midvale requests that the Commission approve a residential rate increase to \$20.00, effective June 1, 2017, and to \$21.22, effective June 1, 2018.

On November 18, 2011, the FCC issued a comprehensive new Order. Among other things, the FCC's Order establishes that in the order for the Company to continue receiving federal support funds, the Company's local residential monthly service rates must be increased to the floor rates. The FCC determines the floor rate annually. If the Company's rates are not increased to the floor rate, the amount of the federal support funds the Company receives will be reduced dollar-for-dollar for each customer by the difference between the existing local rate and the new FCC floor rate.

The Commission's Utilities Division ("Staff") is in the process of analyzing the Company's application, and has not yet made any recommendations regarding the Company's proposed rates. The Commission will determine the appropriate relief to be granted based on the evidence presented by the parties at an evidentiary hearing. The Commission is not bound by the proposals made by the Company, Staff, or any intervenors. Therefore, the final rates approved by the Commission may be higher or lower than the rates requested by the Company.

How You Can View or Obtain a Copy of the Rate Application

Copies of the application and proposed rates are available by contacting Midvale Telephone Company at 1-800-462-4523, at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona, 85007, for the public inspection during regular business hours, and on the Internet via the Commission's website (www.azcc.gov) using e-Docket function and Docket No. T-20741A-16-0088.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter beginning **August 30, 2016, at 10:00 a.m.**, at the Commission's offices, Hearing Room No. 2, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken at the beginning of the hearing.

Written public comments may be submitted by mailing a letter referencing **Docket No. T-20741A-16-0088** to: Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by submitting comments on the Commission's website (www.azcc.gov) using the "Submit a Public Comment for a Utility" function. If you require assistance, you may contact the Consumer Services Section at 602.542.4251 or 1.800.222.7000.

About Intervention

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene. An interested person may be granted intervention if the outcome of the case will directly and

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Employee Owned, Community Focused, Customer Centered
MTE Communications is an equal opportunity provider and employer.

substantially impact the person, and the person's intervention will not unduly broaden the issues in the case. Intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other parties' witnesses. However, failure to intervene will not preclude any person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case.

To request intervention, you must file an original and 13 hard copies of a written request to intervene with Docket Control, 1200 West Washington, Phoenix, AZ 85007, no later than **June 28, 2016**. You also must serve a copy of the request to intervene on each party of record, on the same day that you file the request to intervene with the Commission. Information about intervention and sample intervention requests are available on the Commission's website (www.azcc.gov) using the "Intervention in Utility Cases" link.

Your request to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any person upon whom service of documents is to be made, if not yourself;
2. A reference to **Docket No. T-20741A-16-0088**;
3. A short statement explaining:
 - a. Your interest in the proceeding (e.g., a customer of the Company, etc.),
 - b. How you will be directly and substantially affected by the outcome of the case, and
 - c. Why your intervention will not unduly broaden the issues in the cases;
4. A statement certifying that you have served a copy of the request to intervene on the utility or its attorney and all other parties of record in the case; and
5. If you are not represented by an attorney who is an active member of the Arizona State Bar, and you are not representing yourself as an individual, sufficient information and any appropriate documentation to demonstrate compliance with the Arizona Supreme Court Rules 31, 38, 39, and 42, as possible.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before June 28, 2016. If representation by counsel is required by Arizona Supreme Court Rule 31, intervention will be conditioned upon the intervenor obtaining counsel to represent the intervenor.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request reasonable accommodations such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, Email sabernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodations.

www.mtecom.net

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MTE Communications is an equal opportunity provider and employer.

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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

DOUG LITTLE - CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. T-20741A-16-0088
MIDVALE TELEPHONE COMPANY, INC. FOR)
THE ESTABLISHMENT OF JUST AND) **NOTICE OF FILING**
REASONABLE RATES FOR ITS YOUNG)
EXCHANGE AND FOR A DETERMINATION)
OF THE FAIR VALUE OF ITS UTILITY)
PROPERTY IN ITS YOUNG EXCHANGE.

Midvale Telephone Company, Inc. ("Midvale") submits the Rebuttal Testimony of
John Stuart.

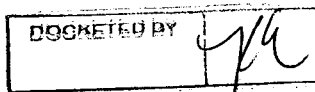
RESPECTFULLY SUBMITTED this 5th day of August, 2016.

SNELL & WILMER L.L.P.

Arizona Corporation Commission

DOCKETED

AUG 05 2016



By Timothy J. Sabo

Timothy J. Sabo
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Attorney for Midvale Telephone Company

Original and thirteen copies of the foregoing
filed this 5th day of August, 2016, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

EXHIBIT

A-4

ADMITTED

1 Copy of the foregoing hand-delivered/mailed
2 this 5th day of August, 2016, to:

3 Sasha Paternoster
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 Janice M. Alward, Chief Counsel
10 Legal Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Thomas Broderick, Director
15 Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE - CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. T-20741A-16-0088
MIDVALE TELEPHONE COMPANY, INC. FOR)	
THE ESTABLISHMENT OF JUST AND)	
REASONABLE RATES FOR ITS YOUNG)	
EXCHANGE AND FOR A DETERMINATION)	
OF THE FAIR VALUE OF ITS UTILITY)	
PROPERTY IN ITS YOUNG EXCHANGE.)	

**REBUTTAL TESTIMONY OF JOHN STUART
ON BEHALF OF
MIDVALE TELEPHONE COMPANY, INC.**

AUGUST 5, 2016

1 **I. INTRODUCTION.**

2
3 **Q. Please state your name and business address.**

4 **A. John Stuart, 2205 Keithley Creek Road, Midvale ID 83645.**

5
6 **Q. What is your position with Midvale Telephone Company?**

7 **A. I am the Chief Executive Officer of Midvale Telephone Company.**

8
9 **Q. Have you reviewed the Staff Report dated July 8, 2016 in this docket?**

10 **A. Yes. We are grateful for Staff's support for the rate increase and we support the**
11 **majority of the Staff Report.**

12
13 **Q. Are there any aspects of the Staff Report that cause you concern?**

14 **A. Yes. On page 6, Staff recommends that "that any future rate increase applications**
15 **filed by Midvale be processed per full A.A.C. R14-2-103 requirements, and not**
16 **streamlined." Because the FCC may continue to raise the price floor, it is**
17 **foreseeable that Midvale may need to file similar cases in the future. In that case,**
18 **it would be reasonable to continue to use the streamlined process, which has been**
19 **successfully applied in numerous cases for small, rural carriers in Arizona.**

20
21 These proceedings are not like traditional rate cases, in that the carrier is not
22 seeking to raise its total level of revenue. Instead, the carrier attempts to meet the
23 FCC minimum rate levels required to continue to receive FCC universal service
24 subsidies. It is in the public interest for Arizona to continue to receive such
25 subsidies for service to rural areas.

1 In addition, Midvale is concerned with the significant expense and internal
2 resources that would be needed to pursue a full, traditional rate case. It has been
3 many years since Midvale had full, traditional rate case. Thus, Midvale would
4 have to heavily rely on attorneys and consultants to prepare such a case.

5
6 Lastly, it is notable that CenturyLink is no longer required to use the Rule 103
7 procedure; it makes little sense to impose the burdensome and complex Rule 103
8 requirements on small, rural carriers when large carriers like CenturyLink are
9 exempt. For these reasons, Midvale believes it should be allowed to use the
10 streamlined procedure in the future.

11
12 **Q. Does this conclude your testimony?**

13 **A. Yes.**

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